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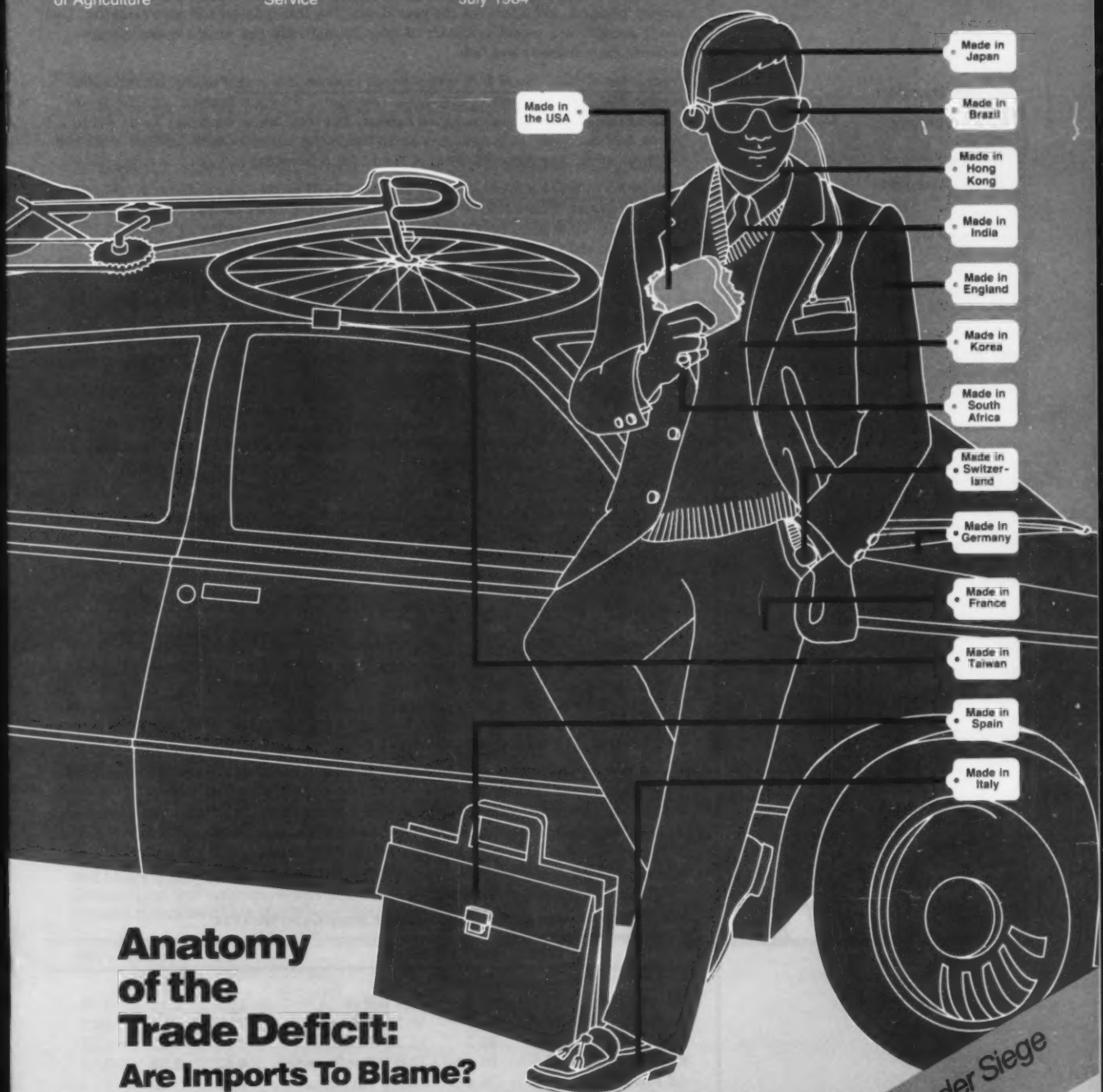

Anatomy of the Trade Deficit:
Are Imports To Blame?

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PERSPECTIVES

THE 1984 CROP WATCH IS ON. USDA analysts are already well into their annual routine of monitoring U.S. and foreign crop progress and posting their latest forecasts of supply, demand, and prices for the year ahead. The forecasts are still very tentative. Last year's drought is a recent reminder of how dramatically the situation can change between early summer and fall.

Production of most major U.S. crops should increase this year. Preliminary forecasts suggest that corn production may jump to about 7.9 billion bushels, up 90% from 1983's PIK-reduced, drought-stunted harvest. The total wheat crop may be up 4% to 2.5 billion bushels. Soybean output may reach nearly 2.1 billion bushels, up 32%. And cotton production may rebound about 47% to 11.5 million bales.

Foreign harvests are also projected to rise from 1983 levels—grains, oilseeds, and cotton. Global production for all three is likely to set a record, based on June crop conditions. The trouble is that gains in U.S. and foreign crop output will probably outpace demand growth here and abroad.

U.S. weather problems thus far include a wet spring that delayed plantings in many areas. As a result, some crops could be vulnerable to heat damage during pollination and to frost damage in early fall. Also, flooding and severe thunderstorms ravaged some farms in the western Corn Belt and Great Plains, while lack of moisture is a worry for cotton producers in parts of Texas and Oklahoma.

Corn stocks are now so tight that prices are very sensitive to any changes in production prospects. U.S. stocks may be down to a meager 500 million bushels by October 1, the beginning of the 1984/85 corn marketing year. That compares with 3.1 billion bushels last October. Exports and domestic feed use should increase next season, lending some price support, but stocks are expected to more than double by October 1985 if this fall's harvest is as healthy as anticipated.

Larger U.S. wheat production comes at a time of declining exports. Growers are hoping for another year of strong feed demand for wheat from livestock producers. Even then, analysts foresee carryover stocks bouncing back to near-record levels by the end of 1984/85, so price prospects aren't very promising. However, wheat growers who participated in the acreage reduction program will earn another large deficiency payment. The target price is $4.38 per bushel.

Soybean price volatility will continue, reflecting the mix of tight supplies and fall harvest expectations. With a much bigger crop, soybean stocks may rise some in 1984/85, though analysts also predict rising exports and a larger domestic crush. Cotton exports, on the other hand, will probably drop sharply next season, and domestic mill use may sag a bit. Stocks could total around 3.2 million bales by August 1985, but that's nowhere near the 7.9 million bales of August 1983.

Season-average grain prices are likely to be down if the current crop outlook holds. Mid-June forecasts put 1984/85 corn prices in the range of $2.60-$3.05 per bushel, down from about $3.25 in 1983/84. Wheat is pegged in the $3.20-$3.50 range, compared with its 1983/84 season average of $3.50. The 1984/85 soybean price forecast carries a relatively wide $6.00-$8.50 range, leaving room on both sides of the estimated $7.90 average for 1983/84. USDA doesn't forecast cotton prices.

U.S. Planted Acreage Estimates Show Some Sharp Gains for 1984[1]

	1982	1983	1984		1982	1983	1984
	million acres				*million acres*		
All corn	81.9	60.2	79.9	Rye	2.53	2.71	2.96
Sorghum	16.0	11.7	16.2	Soybeans	70.9	63.1	68.0
Oats	14.0	20.3	12.2	Peanuts	1.31	1.41	1.55
Barley	9.5	10.4	12.0	Sunflowers	4.82	3.08	3.65
All wheat	86.2	76.4	79.5	All cotton	11.3	7.9	11.3
Rice	3.30	2.19	2.90	All hay[2]	59.8	59.7	62.3

[1] From Crop Reporting Board's June acreage report. [2] Area harvested.

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FARMLINE

AGRICULTURE . . . NATURAL RESOURCES . . . RURAL DEVELOPMENT
Practical economic intelligence from USDA's Economic Research Service

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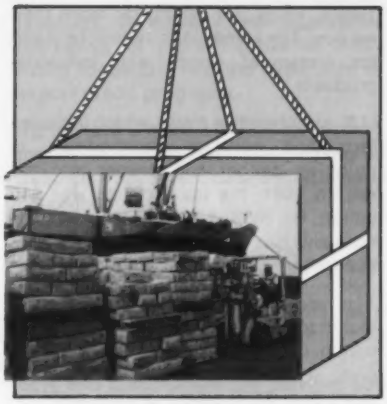
Although U.S. agricultural exports may be slipping a bit in the early 1980's, we're still selling far more than we buy. The same claim cannot be made for consumer goods and industrial products. U.S. merchandise trade is plunging deeper and deeper into the red. The causes are complicated, says one economist, but slashing our imports is not the solution.

Smokers Under Siege *by Ellen Banker* 12

If millions of Americans are still lighting up for pleasure, relaxation, or habit, millions of others aren't. Cigarette smokers are finding it increasingly more expensive and often more difficult to puff away when they please. Taxes are up, antismoking laws are spreading, and consumption is down.

Agriculture and the Larger Economy: When Links Become Liabilities *by Eric Van Chantfort* 14

Farming has always been tied to the larger economy, but the relationship has grown more intimate and complex. The two are now so closely linked that developments beyond the farm gate may have a greater impact on agriculture—for better or worse—than traditional farm programs. The price of this vulnerability can be seen on both the income and the expense side of farming.



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Tear it out and keep it handy. This is your guide to July-December release dates and ordering information for situation and outlook reports of the Economic Research Service, crop and livestock reports of the Statistical Reporting Service, and supply-demand estimates of the World Agricultural Outlook Board.

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Anatomy of the Trade Deficit

Although U.S. agricultural exports may be slipping a bit in the early 1980's, we're still selling far more than we buy. The same claim cannot be made for consumer goods and industrial products.

U.S. merchandise trade, which includes farm and nonfarm commodities, is plunging deeper and deeper into the red. In 1981, the trade deficit was $30 billion. By 1982, it had reached $35 billion, and last year it came to more than $60 billion.

This year, agricultural exports are projected to bring in a surplus of about $20 billion over imports. Despite this surplus, a merchandise trade deficit of more than $100 billion is expected.

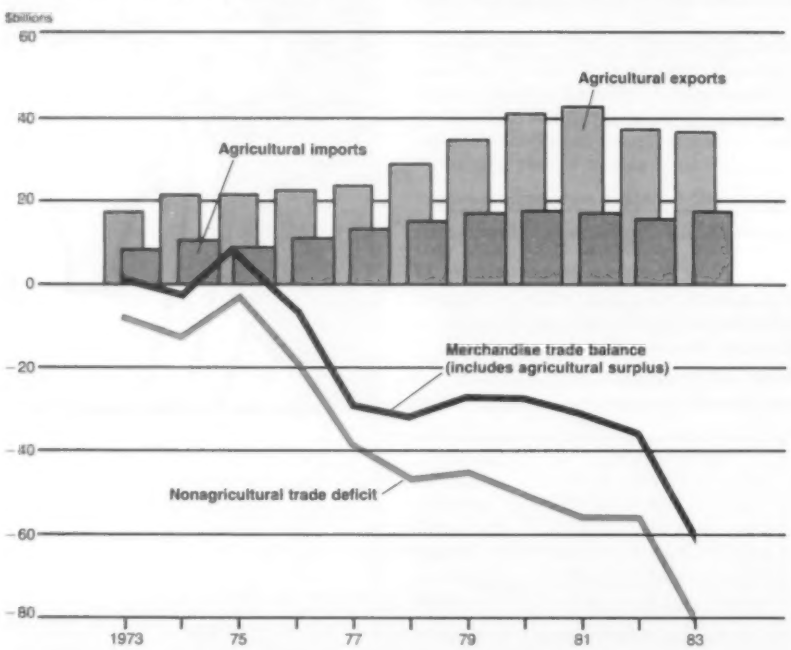
Many economists contend that the growing gap will be eventually "corrected" by the marketplace, but the record deficits have prompted pressures for protectionism against foreign-made goods.

Concern often centers on specific countries and commodities: Japan, with which the United States had about a $20 billion trade deficit last year, and hard-hit U.S. industries such as steel, autos, and apparel. Much of the debate has similarly focused on foreign subsidies, trade barriers, and even alleged dumping of surplus output on the American market.

Unfair trade practices, where they exist, are a legitimate concern, says economist Art Morey of USDA's Economic Research Service.

However, he is quick to add, "Looking at overall world trade this way offers a superficial explanation for a much more complicated mix of causes." In his view, the major factors in the deficit are the same ones that have depressed sales of U.S. farm goods, and most of them have little to do with any one particular country's trade practices.

U.S. Agricultural Surplus Has Cushioned a Widening Merchandise Trade Deficit



A Complicated Mix

"The trade deficit," Morey says, "is a consequence of complex factors, ranging from the strength of the U.S. dollar and our strong economic recovery to the weakness of the world economic recovery and large foreign debts in developing countries."

Certainly, one reason for flagging U.S. sales abroad has been the persistent strength of the U.S. dollar on foreign exchange markets. "Since 1980, the dollar has increased some 40 percent in value in comparison to foreign currencies," Morey notes.

The strong dollar helps keep down the price of imported goods made in Japan, Germany, Korea, and elsewhere, while it makes U.S. products considerably more expensive on the world market.

High U.S. interest rates combined with a low rate of inflation attract foreign investments, driving up the value of the dollar. And because the dollar has been allowed to float freely in currency markets since 1973, its value is buoyed by influences such as the large inflows of foreign money.

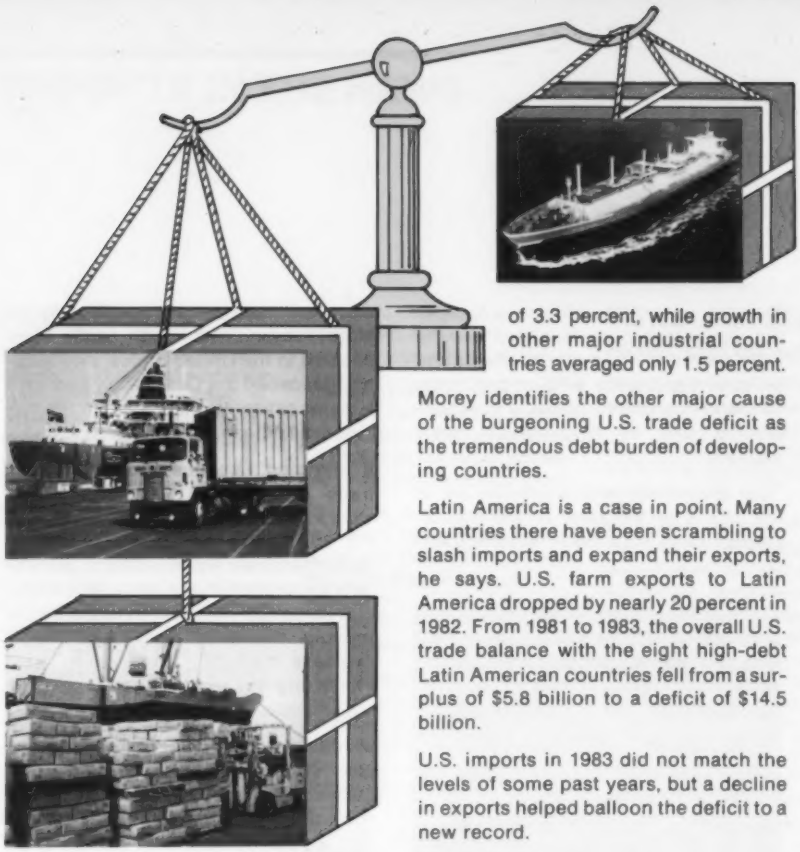
International investors, seeking to place their funds in the money markets where the real rates of return will be highest, have apparently settled on the United States as a solid investment.

The dollar is also buttressed by a strong U.S. economic recovery, which is outpacing the upturn in Europe and other parts of the world.

"With the surging recovery and the image of stability in a politically troubled world, the United States is attracting enormous amounts of foreign investment," Morey says.

U.S. Sets the Pace

The improving U.S. economy affects the trade deficit in still another way. It boosts the buying of foreign goods by



American consumers, who can afford to spend more on imported cars and other foreign products as their incomes improve.

At the same time, the slower pace of recovery abroad, along with the dollar-inflated price of U.S. goods, means that foreign consumers cannot afford an equal demand for U.S. products, says Morey. From 1982 to 1983, the U.S. gross national product grew at a rate of 3.3 percent, while growth in other major industrial countries averaged only 1.5 percent.

U.S. Economic Recovery Outpaces Recovery in Other Industrialized Countries

	1981	1982	1983
	percent growth in GNP		
United States	2.6	-1.9	3.3
Other Industrial Countries	.8	1.4	1.5
Canada	3.4	-4.4	3.0
France	.3	1.8	.6
Germany	-.3	-1.1	1.3
Italy	.1	-.3	-1.4
Japan	4.0	3.4	3.1
United Kingdom	-1.8	-1.9	2.9

Morey identifies the other major cause of the burgeoning U.S. trade deficit as the tremendous debt burden of developing countries.

Latin America is a case in point. Many countries there have been scrambling to slash imports and expand their exports, he says. U.S. farm exports to Latin America dropped by nearly 20 percent in 1982. From 1981 to 1983, the overall U.S. trade balance with the eight high-debt Latin American countries fell from a surplus of $5.8 billion to a deficit of $14.5 billion.

U.S. imports in 1983 did not match the levels of some past years, but a decline in exports helped balloon the deficit to a new record.

Agriculture Still Success Story

"Despite the current troubles, agriculture is still the success story in the U.S. trade picture," says Morey. Although the $40-billion-plus farm exports of a few years ago fell to about $36 billion in 1983, the net surplus of U.S. farm exports over imports was a substantial $20 billion in 1983.

Certainly, farm sales, like those of manufactured goods, reflect the impact of the strong dollar, the lingering effects of a global recession, and the ability-to-pay problems of developing countries. Many of these peoples' hopes for a better diet were dashed by faltering economies that could not meet rising expectations.

Agricultural sales have remained relatively strong, however, because of a key difference with manufactured goods, according to Morey. "Food is a staple, something more vital and necessary than other, nonfood products." During periods of slow income growth or of price changes resulting from exchange-rate fluctuations, consumption of foods remains relatively stable, when compared to consumption of automobiles, clothes, or stereos.

The answer is in increasing our exports, not decreasing our imports.

Many officials believe agricultural exports can provide even greater revenues, particularly with aggressive marketing of more high-value processed foodstuffs and the expansion of export credit programs.

Agriculture is not the only sector adding money to U.S. coffers and helping to defray the nonagricultural deficit in merchandise trade.

"Another positive part of the U.S. trade picture is the role played by our foreign investment and by service industries," Morey says. U.S. investments earn income from abroad, and U.S. firms that provide financial, marketing, information, and communications services add a substantial plus to our balance sheets. When U.S. income from services, investment, and other factors is matched against the merchandise trade deficit, our overall "current account" deficit shrinks from more than $60 billion in 1983 to a still-high, but more reasonable, $38 billion.

Seeking the Origins

The U.S. merchandise trade deficit seems to have had its origins in the early 1970's, when Americans first had to get used to spending additional billions for suddenly more expensive OPEC oil. Oil price rises chilled sales of large American cars and pushed along the acquired taste for imported, gas-efficient automobiles. Morey says oil price increases proved even tougher to take for other countries, which "were forced to choose between oil and other products."

More recently, the United States has brought its oil imports under control, conserving more and shifting to more reliable and, in some cases, cheaper oil suppliers. Automobile imports, however, continued to grow, and more foreign steel, industrial equipment and machinery, and consumer goods widened the U.S. trade deficit.

One visible impact, of course, has been the loss of American jobs in the auto and steel industries. But other sectors of the American economy are compensating

for this job loss with even greater employment growth.

"From 1977 to 1983, the United States created jobs at a faster rate than any other industrial country. In fact, growth in U.S. employment in nonagricultural industries was constant despite the increasing trade deficit," says Morey.

In contrast, some other industrial nations suffered a decline in their job base despite favorable trade balances.

"By shifting out of producing goods in which it is not competitive, the United States saves itself from supporting inefficient industries. Such support would be costly and ineffective, and could come at the expense of higher average growth and job creation rates over an extended period."

Pressures for Protectionism

In an attempt to stem the tide of imports and protect, at least temporarily, some U.S. industries, the United States has slapped formal sanctions on imports of some goods, like specialty steel, and maintained informal "voluntary quotas" on Japanese cars (currently set at 1.85 million vehicles per year).

Federal trade officials have also been taking more products off the Generalized System of Preferences list of duty-free products. The GSP, set up in 1976 to spur the economic growth of less-developed countries, waives duties on the import of some 3,000 products from 140 nations. The value of products now excluded from the list, $11.9 billion, is greater for the first time than that of the products on the list, $10.8 billion. Officials have also set up either quotas or other trade barriers on imports of apparel, sugar, and motorcycles.

Still more serious steps, such as the imposition of across-the-board surcharges on imports or enactment of other protectionist actions like the so-called 'domestic-content' legislation for automobiles and other products, have not yet been taken.

Perhaps part of the reluctance to mete out such measures is based on the Administration's free-market stance and on past experience with strong trade barriers. The United States is now considered one of the world's freest markets.

"Our experience with protectionism in the 1930's in the form of the Smoot-Hawley Tariff Act shows that trade barriers often hurt more than they help," Morey says. "When high tariffs were enacted in the United States, they actually deepened the Depression and were a major cause of breakdown in the foreign trade mechanism."

If anything happened to the world's trade mechanism, the United States would be adversely affected, he says. In the 1970's, the United States saw its dependence on world markets, particularly for farm products, grow. Any strong U.S.-imposed trade restrictions might provoke retaliation that could cripple overseas markets. "The answer is in increasing our exports, not decreasing our imports."

Worldwide, the growth of trade accelerated strongly in the 1970's and now seems to be recovering from the recent recession-induced slowdown. Any sudden drop in activity, says Morey, could stifle development in many countries and possibly trigger another global recession. From 1970 to 1983, world imports increased 73 percent at the same time that total world GDP (gross domestic product) increased 50 percent. Thus, trade has increased its share of total output.

Analysts suggest that the ultimate solution to the widening U.S. trade deficit may lie in the movement of the marketplace itself—the fact that it is constantly changing and evolving to find an equilibrium of its own.

Morey says the present situation could be viewed as an economic equalizer of sorts, a cyclical phenomenon of exporting U.S. economic strength to other lagging nations as we buy their goods.

"As other countries catch up with the recovery in the United States, the value of the dollar should decline, making it possible for these countries to purchase more U.S. goods and trim our nation's trade deficit." □

[Based largely on information provided by economist Art Morey of the International Economics Division, Economic Research Service.]

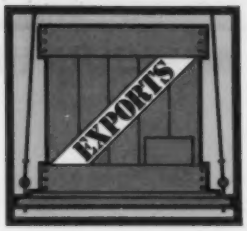
Red Ink on the Pacific Rim

Among the countries whose trade surpluses with the United States were the highest in 1983 are Japan, with a net trade surplus of about $20 billion; Canada, with $13 billion: Mexico, with $7 billion; and Taiwan, with $6 billion.

Japan and Taiwan are among the important group of "Pacific Rim" countries, which also include Korea, Singapore, and Hong Kong. When taken as a group, these countries have replaced Western Europe as America's major trading partners since the beginning of the 1980's.

According to the U.S. Commerce Department, trade in 1979 between the United States and Western Europe was $1.1 billion greater than trade between the United States and the Pacific basin nations of Asia. The big change took place the next year, when Asian trade moved ahead of trade with Europe by $2 billion.

U.S. trade with the "Pacific Rim" countries more often than not adds to deficits—reversing the normal U.S. trade pattern with Europe. The U.S. trade deficit with these Asian countries was more than $30 billion in 1983, about half the total U.S. merchandise trade deficit.



Hiring Illegals

Farm employers who depend heavily on immigrant workers—many of them in the United States illegally—could find the flow of such workers affected under legislation pending in a House-Senate conference committee.

"Vegetable, melon, fruit and tree nut, and horticultural specialty farms will be especially affected because they are labor intensive and probably hire many undocumented workers," says economist Robert Coltrane of USDA's Economic Research Service.

The Immigration Reform and Control Act (better known as the Simpson-Mazzoli bill) would, for the first time, make it unlawful for employers to hire illegal aliens.

In his report, Coltrane analyzes the potential impact of such changes on agricultural employers, focusing on how the use of hired farm labor in various crops and regions of the country could be affected.

Noting that "foreign workers constitute an important segment of the farm work force," Coltrane says changes in immigration law would have the greatest potential impact in 10 states.

These 10 states accounted for 81 percent of hired and contract labor expenditures on vegetable and horticultural farms, according to the latest available data.

"California and Florida alone had nearly 40 percent of these farms with hired labor," Coltrane says. The other eight were Arizona, Michigan, New York, Ohio, Oregon, Pennsylvania, Texas, and Washington.

"The legislation would force farm employers to hire either American workers or legal foreign workers," Coltrane says. "Some employers, at times dependent on illegal foreign workers, may have difficulty filling seasonal jobs with other workers."

Immigration Reform and Agricultural Labor *by Robert Coltrane. (Published April 1984; 31 pages of text, charts, tables, and maps; GPO Stock No. 001-000-04370-6; $2.00.)*

Venezuela: Stalled Now; Better Later

As a long-term growth market, Venezuela is full of promise. The nation is already the second largest customer in Latin America for U.S. agricultural products.

It has an abundance of oil to sell, a rapidly expanding population of 16 million, and one of the highest per capita incomes south of our border. Diets are improving and expectations are rising, while domestic farm production has been declining as more people and resources shift to the industrial sector.

In short, sales of U.S. farm products should be booming, and they had been until recently. The dollar value of U.S. agricultural exports to Venezuela reached a record $893 million in 1981, up from around $100 million in the early 1970's.

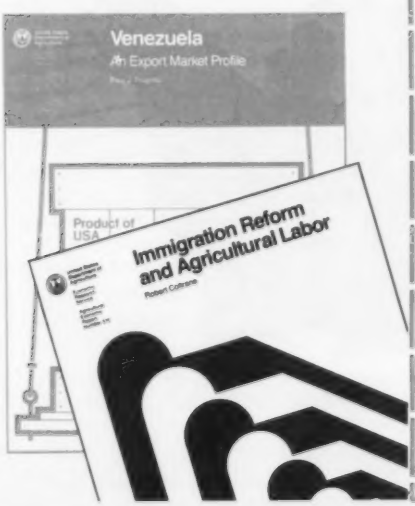
In the last few years, however, Venezuela has been hurt by the world recession, reduced prices for oil, and a decline in foreign investment. As the country's foreign revenues dropped, so did its purchases of U.S. farm products—down to $670 million in 1982 and slightly lower in 1983.

ERS analysts are not optimistic about this year or next. The country's economic slowdown and debt problems are forcing a decline in imports and more emphasis on self-sufficiency.

Beyond 1985, analysts expect a resumption in Venezuela's economic expansion and a return to a growth trend in agricultural imports, especially in animal and poultry feeds and high-value products.

U.S. agriculture will benefit from this market expansion, but concerted market development efforts may be necessary to maintain the U.S. edge against competing suppliers.

Venezuela: An Export Market Profile *by Paul Trapido. (Published June 1984; 22 pages of text and tables; GPO Stock No. 001-000-04407-9; $1.75.)*



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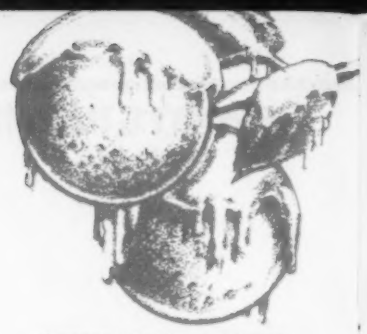


A Dip, No Dive in Farmland Values

Farm real estate values declined for the third year in a row during the 12-month period ending on April 1, 1984. The latest decline, however, averaged only 1 percent for the nation as a whole, compared with a 6-percent drop in U.S. farmland values the previous year.

The average acre of U.S. farmland—both land and buildings—is now valued at $739, down from $743 on April 1, 1983, and well below the all-time high of $795 reported in early 1981.

A state-by-state assessment of recent trends offers a more optimistic picture for farmers worried about deteriorating borrowing capacity and net worth.

In the 1982 to 1983 period, real estate values dropped in 34 states and rose in 11 states. In the most recent survey period, values fell in 17 states, while 24 states registered higher farmland values.

"Increases were greatest in Pennsylvania and Texas, at 8 and 9 percent, respectively," says economist Bill Heneberry, an analyst with USDA's Economic Research Service. "The largest declines of 11 and 12 percent occurred in Iowa and Nebraska."

Higher real estate values were found throughout the Northeast and in most of the western states. The declines were concentrated in the Corn Belt, Great Lakes states, Southeast, Northern Plains, and Appalachia. These are also the areas where concern about the economic plight of many farmers is greatest.

Although states with gains in farmland values outnumbered the losers, the losers prevailed in their influence on the national average.

"A 1-percent drop in dollar values, coupled with a 4.8-percent rise in the consumer price index, implies a 5.8-percent decline in the real value of farmland," notes Heneberry. "Adjusted for inflation, farmland values have now fallen for 4 straight years, and the total decline is something on the order of 23 percent."

The downturn in farmland values in the early 1980's has come as a shock after the steady, double-digit increases of the 1970's. The hopeful news, says Heneberry, is that we've now seen "an appreciable slowdown in the rate of decline, both in nominal and in real terms."

Paying More for a Glass of Sunshine

Orange juice prices are up, and they'll probably stay that way through the year, because of last December's freeze in Florida, short carryover stocks, and an insufficient supply of imports to make up the difference.

Economist and citrus expert Ben Huang of USDA's Economic Research Service says that Florida orange groves, the primary source of the U.S. orange juice supply, were hit by temperatures as low as 19 degrees last December. The freeze sharply reduced crop size and juice yields. Overall, production is off 15 percent to an estimated 119 million boxes, the smallest crop since 1967/68.

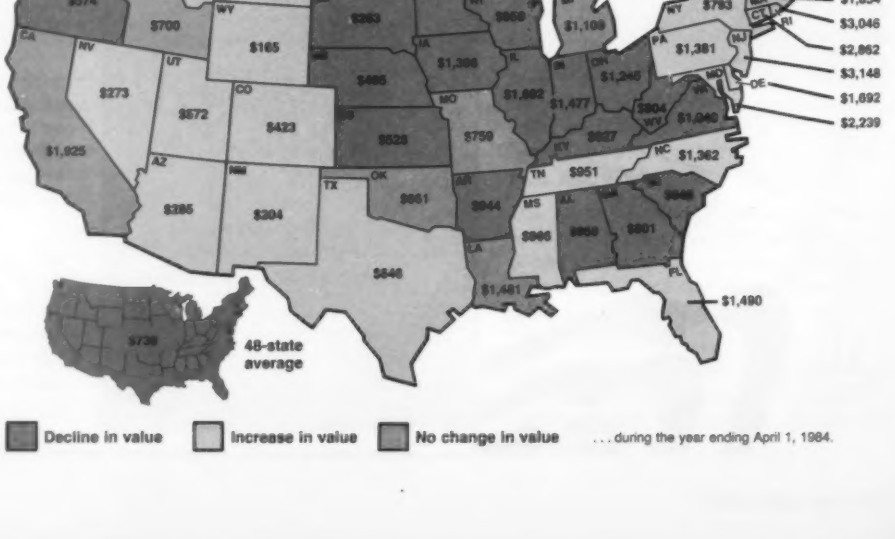
Not only was the crop slashed, but the salvaged, freeze-damaged Florida oranges are yielding almost 13 percent less juice. This year, a 90-pound box provides only 1.29 gallons equivalent to 42 degrees Brix (a measure of sugar content in the juice), compared with 1.48 gallons from the 1982/83 crop.

Fewer oranges and less juice have put the 1983/84 Florida pack (the total amount processed) at approximately 125 million gallons of frozen concentrated orange juice, 26 percent below a year earlier.

"With both the pack and stocks smaller, Florida orange juice processors are looking to other sources to keep up with the demand," says Huang. "To match the 1982/83 supply of 282 million gallons, they would need to bring in 114 million gallons from other states and foreign suppliers for further processing and packaging."

Farmland Values Decline in 17 States; Rise in 24 Others

Average farm real estate values per acre, April 1, 1984:



However, that amount isn't likely to be available. Although Florida imports had grown from 23 million gallons a year ago to 42.3 million gallons by early June, the Florida Department of Citrus says prospects point toward total imports to Florida of only about 75 million gallons. Traditionally, Brazil is our largest supplier, providing an average of 95 percent of U.S. imports since 1979. Even though this season's imports from Brazil are expected to hit a record, there still will not be enough frozen concentrated orange juice to keep prices down. Mexico usually supplies 2 to 7 percent of U.S. imports in most years, but the December freeze also took a toll on its orange groves.

This year's f.o.b. Florida price of a dozen 6-ounce cans of an unadvertised brand of orange juice concentrate has risen to $5.04 from $3.95 a year ago, according to Huang. Recently, several Florida processors raised their prices to $5.33. With tight supplies, he says, prices will stay high throughout 1984.

Gleanings

Nonfarm industries and consumers take note. Agriculture is a technological treadmill for producers, but it's also a model of competitive efficiency and technological progress. So says economist David Harrington in this quotable observation: "Since individual farmers are price-takers, they have quickly adopted new cost-reducing or output-increasing technologies of production, storage, and marketing to increase profit margins. Early adopters of a new technology derive only temporary benefits. As the technology is more widely adopted, it increases the total supply of the product, driving down prices and forcing others to use it merely to stay in business. Because of this technological treadmill, the sector had to be progressive and efficient. Meanwhile, the benefits of technological advances and productivity increases have been passed on to consumers of farm products."

Need to take some excess land out of production? Go back to horsepower. Up until the early part of this century, almost all the power on farms was supplied by men and animals. In 1910, roughly 1 in every 4 acres of cropland was used to produce feed for draft animals. The virtual disappearance of work horses and mules from America's farms freed up around 90 million acres for food production, according to ERS economist Lloyd Teigen.

Fishing feeds many people... Recreational fishing in the United States has a significant side benefit in addition to the sport it provides. The private fish catch accounts for more than one-fourth of the fish consumed in the home, says economist Anthony Gallo of USDA's Economic Research Service. According to a recent analysis of data from the 1977-78 USDA Nationwide Food Consumption Survey, American households consumed an average of about 12 ounces of fish and shellfish per week. Of this, about 3 ounces was from "home-produced" fish.

...and the catch adds up to a lot of money. The total estimated value was about $750 million for 1977-78, Gallo says. Meanwhile, consumers bought about $5½ billion worth of fish and shellfish in the nation's retail outlets. The 1980 estimate for the value of game fish was nearly $1 billion, reflecting a 25% increase in retail fish prices and a gain of about 5 million households since the 1977-78 survey. How much does this $1 billion catch cost anglers? That figure comes to $17 billion, according to the 1980 National Survey of Fishing, Hunting, and Wildlife Associated Recreation. Included is the price of licenses, permits, and equipment, as well as the costs of lodging, transportation, and subscriptions to fishing magazines. So, fishing helps feed the fortunate angler, but it does so at a substantial cost.

Leaders

...In World Tobacco Production

	1982	1983	Share of world total, 1983
	thousand tons		
China	2,179	1,500	25.3%
United States	899	628	10.6%
India	525	515	8.7%
Brazil	378	378	6.4%
USSR	307	310	5.2%
Turkey	214	221	3.7%
Bulgaria	159	155	2.6%
Italy	143	140	2.4%
Japan	139	138	2.3%
Indonesia	117	122	2.1%
Greece	132	115	1.9%
Canada	70	111	1.9%
Zimbabwe	93	99	1.7%
South Korea	115	95	1.6%
Thailand	86	92	1.5%
Philippines	90	92	1.5%
Poland	96	85	1.4%
Yugoslavia	75	80	1.3%
Malawi	59	77	1.3%
Argentina	69	73	1.2%
All others	936	910	15.3%
World total	6,881	5,936	100.0%

1984 Reports Calendar July-December

Titles of Outlook and Situation reports of the Economic Research Service are printed in color. Summaries of reports are released at 3 p.m. on the dates shown. Copies of complete reports are off press in 10 days to 2 weeks. The World Agricultural Supply and

JULY

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
2 *Dairy Products* *Egg Products* *Poultry Slaughter*	3 *Agricultural Outlook*	4	5 *Noncitrus Fruits & Nuts—Midyear Supplement* *Livestock & Poultry*	6 *Celery* *Sub-Saharan Africa*
9 *Mink*	10 *Crop Production*	11 *Agricultural Supply & Demand*	12 *Turkey Hatchery*	13 *Fruit*
16 *Milk Production* *Vegetables* *Economic Indicators of the Farm Sector*	17 *Farm Real Estate*	18 *Cattle on Feed*	19 *Livestock Slaughter*	20 *Cattle* *Cold Storage* *Catfish*
23 *Eggs, Chickens, & Turkeys*	24 *Farm Production Expenditures, 1983* *Wheat*	25 *Inputs*	26 *Oil Crops*	27
30 *Vegetables*	31 *Egg Products* *Agricultural Prices* *South Asia*			

AUGUST

MONDAY	TUESDAY	WEDNESDAY
		1 *Poultry Slaughter* *Livestock & Poultry*
6	7 *Celery* *Vegetables*	8
13 *Turkey Hatchery* *Mushrooms* *Agricultural Supply & Demand*	14 *Cattle on Feed* *Economic Indicators of the Farm Sector*	15 *Sugar Market Statistics* *Foreign Agricultural Trade of U.S.*
20 *Cold Storage* *Catfish* *Rice Stocks* *Export Outlook*	21 *Farm Labor* *Cranberries*	22 *Eggs, Chickens, & Turkeys*
27 *Cotton & Wool*	28 *World Agriculture*	29

OCTOBER

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
1 *Egg Products* *Agricultural Outlook*	2 *Poultry Slaughter*	3 *Dairy Products*	4 *Cherry Utilization* *Celery*	5 *Vegetables*
8	9	10	11 *Crop Production*	12 *Turkey Hatchery* *Agricultural Supply & Demand*
15	16 *Milk Production* *Foreign Agricultural Trade of U.S.*	17 *Economic Indicators of the Farm Sector*	18 *Cattle on Feed*	19 *Livestock Slaughter* *Catfish* *Oil Crops*
22 *Eggs, Chickens & Turkeys* *Cold Storage* *Inputs*	23 *Grain Stocks* *Rice Stocks*	24 *Agricultural Supply & Demand*	25 *Vegetables*	26
29	30	31 *Egg Products* *Agricultural Prices*		

NOVEMBER

MONDAY	TUESDAY	WEDNESDAY
5	6 *Celery* *Agricultural Outlook*	7
12	13 *Turkey Hatchery* *Agricultural Supply & Demand*	14 *Cattle on Feed*
19	20 *Catfish* *Feed*	21 *Cold Storage* *Eggs, Chickens, & Turkeys*
26 *Cotton & Wool*	27	28

Demand Estimates reports, issued by the World Agricultural Outlook Board, are also printed in color. These reports are released to the press in their entirety on the dates shown. To request subscription information on any of these reports, write: EMS Information, Room 440 GHI Bldg., USDA, Washington, D.C. 20250.

Titles of reports issued by the Crop Reporting Board of the Statistical Reporting Service are printed in black. Complete reports are released—most at 3 p.m.—on the dates shown. To request subscription information, write: Crop Reporting Board, Room 5829 South Bldg., USDA, Washington, D.C. 20250.

SEPTEMBER

DNESDAY	THURSDAY	FRIDAY
1 2 ltry Slaughter stock & oultry	2 Dairy Products Agricultural Outlook	3
8	9	10 Crop Production
15 ar Market tatistics eign Agricul- ural Trade of .S.	16 Milk Production Feed	17
22 s, Chickens, Turkeys	23	24 Livestock Slaughter
29	30 Poultry Slaughter Egg Products	31 Agricultural Prices

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3	4 Dairy Products Agricultural Outlook	5	6 Celery	7
10 Sugar & Sweeteners	11 Vegetables	12 Crop Production	13 Turkey Hatchery Peanut Stocks & Processing Agricultural Supply & Demand	14 Cattle on Feed Milk Production
17 Hop Stocks Fruit	18 Tobacco	19 Catfish Dairy	20 Soybean Stocks Hogs & Pigs Cold Storage Rice	21 Livestock Slaughter Eggs, Chickens, & Turkeys Citrus Fruits
24	25 Inputs	26	27 Potatoes & Sweetpotatoes	28 Agricultural Prices Livestock & Poultry

DECEMBER

DNESDAY	THURSDAY	FRIDAY
	1 Poultry Slaughter	2 Dairy Products
7	8 Fruit	9 Crop Production
14 le on Feed	15 Sugar Market Statistics Wheat	16 Milk Production Foreign Agricultural Trade of U.S.
21 l Storage s, Chickens, Turkeys	22	23 Livestock Slaughter
28	29 Commercial Fertilizers—Consumption	30 Agricultural Prices World Agriculture

MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY
3 Dairy Products Egg Products Poultry Slaughter Export Outlook	4 Celery	5 Outlook Conference DEC 3-6	6 Livestock & Poultry	7 Sugar & Sweeteners
10 Crop Production	11 Agricultural Supply & Demand	12 Turkey Hatchery Agricultural Outlook	13 Tobacco	14 Cattle on Feed Milk Production Potato Stocks Economic Indicators of the Farm Sector
17 Food Prices, Consumption, & Expenditures	18	19 Cold Storage Catfish Dairy	20 Small Grains Hogs & Pigs Agricultural Finance	21 Livestock Slaughter Eggs, Chickens, & Turkeys
24	25	26	27 Vegetables—Preliminary	28
31 Egg Products Agricultural Prices				

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Smokers Under Siege

If millions of Americans are still lighting up for pleasure, relaxation, or out of habit, millions of others are not. Those who use cigarettes are finding it increasingly expensive and often more difficult to puff when they please.

Americans smoked an estimated 600 billion cigarettes in 1983, or an average of 175 packs for every adult 18 and over (smoker or nonsmoker) in the country. These numbers are large, but they've been larger.

Per capita use has been trending downward for 20 years and is now at the lowest level since 1949. Even the total quantity of cigarettes smoked, a figure that usually rises with population growth, has now dropped for 2 consecutive years.

According to USDA economist Verner Grise of the Economic Research Service, the recent decline in total cigarette use is largely due to retail price increases. Tax hikes and, to a smaller degree, higher manufacturing costs are responsible. He adds, however, that health concerns, anti-smoking campaigns, and proliferating restrictions on where and when Americans can smoke have also played a role.

"Last year, the average retail price of a pack of cigarettes went up 21 percent, from roughly 75 cents to 90 cents," Grise says.

Why did prices climb so high?

"Mostly as a result of higher excise taxes," Grise says. The federal excise tax doubled—from 8 to 16 cents per pack. Thirteen states raised cigarette taxes by an average of 4.5 cents a pack in 1983. One state added a 1-cent surcharge per pack, and five states removed sunset provisions that would have ended previous excise taxes. By December, the national weighted average state tax was 15.3 cents a pack, a 1-cent increase over 1982's rate.

In addition, manufacturers raised wholesale cigarette prices three times in 1983.

Fines can give new meaning to the phrase, "Mind if I smoke?"

Even if the industry could keep the lid on taxes and manufacturing costs, it would still have to contend with the longer term impact of health concerns and the more recent nonsmokers' rights movement.

Posted: No Smoking

Nationally, 38 states and the District of Columbia now have laws that limit smoking in public places, according to the Department of Health and Human Services (HHS). Five states regulate smoking in the workplace.

So many localities now have some smoking restrictions that no definitive figures are available.

San Francisco probably has the toughest workplace restriction anywhere. In the Bay City, the objections of a single employee can limit smoking anywhere in the office. Complaints can usually be handled amicably and, so far, most have been resolved without fines. But the fine for a violation is $500 a day, an amount that gives new meaning to the phrase, "Mind if I smoke?"

A San Francisco-style ordinance, also with fines of up to $500, is under consideration in Chicago. "Nationwide, however," says Judy Murphy of the Smoking and Health office at HHS, "fines can really vary." In Connecticut, no fines can legally be imposed to back up the no smoking laws. The amount set by a new law in Alexandria, Va., is $50 per incident.

Michael C. Grimes, executive director of Californians for Nonsmokers' Rights, believes that grass roots organizations have made a difference. Groups such as his often lobby state legislatures, conduct anti-smoking public information campaigns, and assist communities in developing "no smoking" laws.

"Americans are more aware of health concerns than ever before," says Grimes, who was once a smoker himself. "The results are dramatic declines in the number of people who smoke."

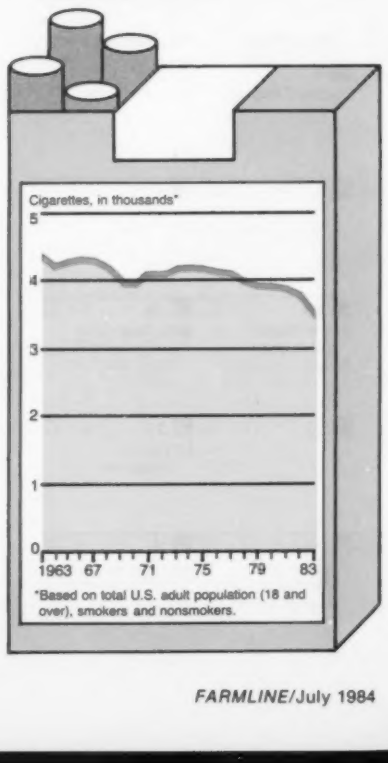
Nationwide, an estimated 38 percent of Americans smoke, but the figure is much lower in California—26 percent.

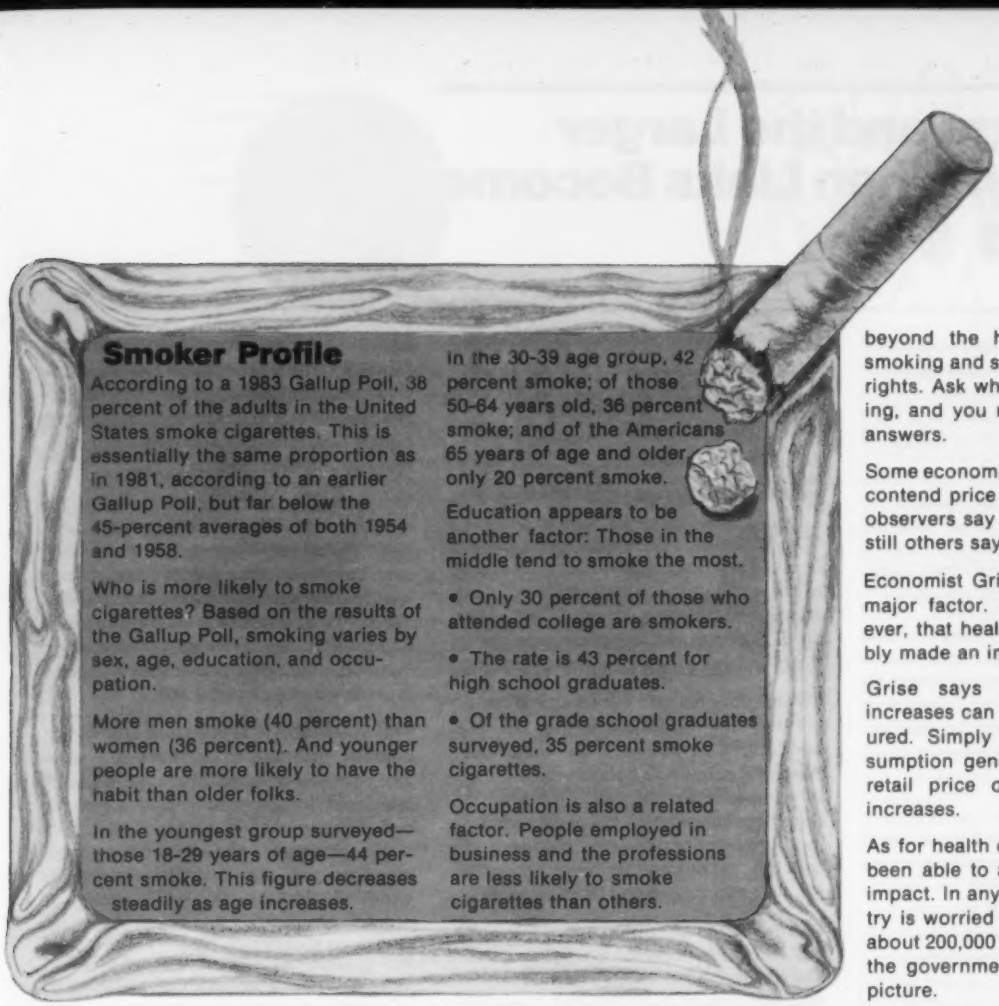
Government statistics show a national decline. According to U.S. Surgeon General C. Everett Koop, 10 percent fewer adults smoke now than in 1965. Dr. Koop says the main reason is an overall concern with health.

Causal Controversy

Ever since 1964, the surgeon general has issued periodic reports on smoking. The 1964 report was something of a landmark because it was the first time the government announced a possible connection between smoking and health problems.

Per Capita Cigarette Use Follows a Slow, Downward Path





Smoker Profile

According to a 1983 Gallup Poll, 38 percent of the adults in the United States smoke cigarettes. This is essentially the same proportion as in 1981, according to an earlier Gallup Poll, but far below the 45-percent averages of both 1954 and 1958.

Who is more likely to smoke cigarettes? Based on the results of the Gallup Poll, smoking varies by sex, age, education, and occupation.

More men smoke (40 percent) than women (36 percent). And younger people are more likely to have the habit than older folks.

In the youngest group surveyed—those 18-29 years of age—44 percent smoke. This figure decreases steadily as age increases. In the 30-39 age group, 42 percent smoke; of those 50-64 years old, 36 percent smoke; and of the Americans 65 years of age and older, only 20 percent smoke.

Education appears to be another factor: Those in the middle tend to smoke the most.

- Only 30 percent of those who attended college are smokers.
- The rate is 43 percent for high school graduates.
- Of the grade school graduates surveyed, 35 percent smoke cigarettes.

Occupation is also a related factor. People employed in business and the professions are less likely to smoke cigarettes than others.

This year, Koop cited smoking as the primary cause in the 1983 deaths of 350,000 Americans. Specifically, Koop blames cigarette smoking for 83 percent of the lung cancer deaths in men and 43 percent in women. In fact, according to the report, smoking is implicated in 30 percent of all cancer-related deaths in the United States, and it's also a major contributor to heart disease.

Officials at the Tobacco Institute disagree. William D. Toohey, a spokesman for the Washington-based trade group of cigarette manufacturers, says the statistics are based on the theory that cigarette smoking causes the various diseases with which it has been statistically linked by some scientists. "And," Toohey says, "that's just a theory. The link between smoking and cancer has not been conclusively proven."

Toohey cites the testimony of 39 experts from the medical and scientific community at the Senate labeling hearings during 1982 and 1983, all of whom cast some doubt on the causal theory. One example of contradictory evidence in the case of lung cancer: "The vast majority of even heavy smokers do not get lung cancer while, among those who do contract the disease, more than 10 percent are nonsmokers."

Toohey makes another point: "With all the hoopla surrounding some anti-smoking legislation, smokers' rights have been ignored." He points out that the need to safeguard personal liberties applies to smokers as well as nonsmokers.

Smokers may sometimes feel like an army under siege, but they have had a few "victories" of their own. So far, the U.S. Civil Aeronautics Board (CAB) has rejected proposals to ban smoking on most commercial airline flights in the United States.

Why the Decline?

Back on the ground, however, disagreement appears to extend to issues beyond the health consequences of smoking and smoker versus nonsmoker rights. Ask why cigarette use is declining, and you may get several different answers.

Some economists and financial analysts contend price is the only factor. Other observers say it's health concerns, and still others say a combination of both.

Economist Grise contends price is the major factor. He acknowledges, however, that health concerns have probably made an impact over the long term.

Grise says the impacts of price increases can be mathematically measured. Simply stated, per capita consumption generally declines when the retail price of a pack of cigarettes increases.

As for health concerns, no one has yet been able to accurately measure their impact. In any case, the tobacco industry is worried about the trends. So are about 200,000 growers, and that's where the government again comes into the picture.

"Tobacco is an agricultural commodity just like wheat or corn," Grise says. "USDA's support programs are not a statement of policy toward smoking. They are simply actions intended to sustain a traditional agricultural industry, one that's been hurt by falling demand in recent years and one that's important to the economy of several states."

Economics aside, the industry could face another challenge in the form of new warning labels on cigarette packs. Legislation now pending in Congress would require rotating warnings on cigarette packs and in cigarette advertising. Among other claims, the warnings say smoking causes lung cancer, emphysema, and heart disease, and may complicate pregnancy. □

[Based on information provided by economist Verner Grise of the National Economics Division, Economic Research Service.]

Agriculture and the Larger Economy: When Links Become Liabilities

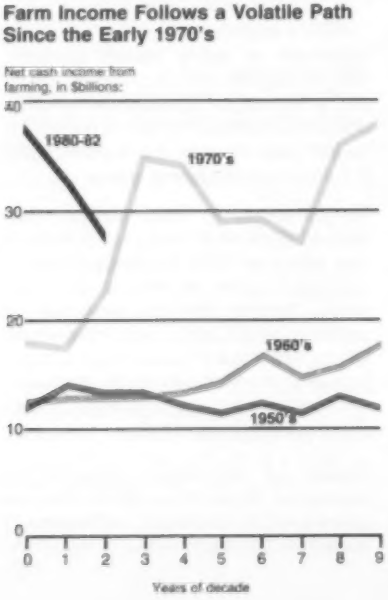
Farming has always been tied to the larger economy, but the relationship has grown more intimate and more complex, according to economist Paul Prentice of USDA's Economic Research Service.

The two are now so closely linked, he says, "that conditions and policies beyond the farm gate might have a greater impact on agriculture's well-being than traditional farm programs."

In the last few decades, U.S. agriculture has entered a larger arena in terms of significantly increased dependence on exports, credit markets, land values, and output-boosting machinery, chemicals, and other technology purchased from the nonfarm economy.

Analysts contend that the events occurring in that larger arena help explain some of the current problems in agriculture. Because these events are mostly outside the jurisdiction of farm policy, the problems they can create for American farmers are not easily solved by traditional farm programs.

Farm Income Follows a Volatile Path Since the Early 1970's



The events occurring in that larger arena help explain some of the current problems in agriculture.

"The policies that most vitally affect farmers are no longer under the control of the agricultural policy process," says economist David Harrington, who heads an ERS group that analyzes changes in the structure and economics of farming.

"Trade policies and international political relations are forged largely by nonagricultural interests," he continues. "General economic policies as reflected in interest rates, inflation, and international exchange rates are of overwhelming importance to the business of farming, yet agriculture has a very small say in the formulation of these policies."

Prentice and Harrington agree that agriculture's best hope for a bigger say is to know where its interests lie when important economic and political decisions are being made. But, even then, a higher level of risk for farmers may be the inevitable price of participation in a larger arena.

Changes from Within

What Prentice calls "the integration of agriculture into the broader domestic and world economy" stems as much, or more, from changes within the farm sector as it does from changes outside the sector.

"Farming remains a unique industry in several respects, and that's one reason why a farm bill and commodity-specific legislation are still important," notes Harrington. However, many of the distinctions and barriers between farming and other major industries have faded.

"Farming has increasingly become a low-margin, high-volume, capital-intensive business in which the large, specialized, technologically sophisticated operations produce most of the output," he adds.

Some observers have described the transformation process as the progressive industrialization of farming. Whatever the label, the changes have brought both a new strength and a new vulnerability to the farm sector.

The strength is obvious. Despite the long-term decline in farm numbers, U.S. agriculture is able to produce more than ever before, and the sector's real wealth is at or near a record level. Since the late 1960's, farm operators whose principal occupation is farming have earned incomes averaging above those of nonfarm families.

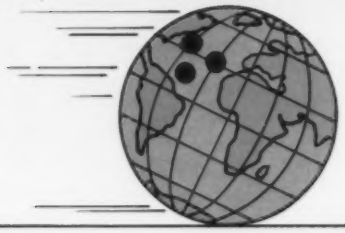
The vulnerability is also evident. A significant number of farmers are now struggling with huge debts, and recent increases in commodity prices haven't bailed them out. Farm foreclosure and bankruptcy rates are disturbingly high in parts of the country, attracting national attention and prompting a number of emergency actions at federal and local levels.

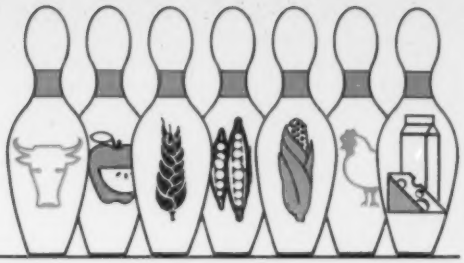
Volatility in the economics of farming, according to Harrington, has become a major concern in agriculture. The sources of the volatility and risk are outside the control of the sector and are added on top of the traditional production risks associated with weather, disease, and insects. The added vulnerability can be seen on the income side and the expense side of farming.

Sources of Vulnerability

The external risks on the demand, price, and income side are greater than they were in the past, and less controllable, mainly because of farmers' greater dependence on volatile export markets. The value of U.S. agricultural exports grew from about 14 percent of farmers' cash receipts in 1960 to 30 percent in 1980.

Today, as much as 40 percent of U.S. crop acreage is harvested for export, compared with 20 percent in 1960. Fluctuations in export demand since the early 1970's have contributed to large variations in farm prices and farm





income. Farm income was very stable in comparison during the 1950's and 1960's.

Export demand can rise or fall dramatically with global business cycles, political decisions here and abroad, exchange rates, and the internal supplies, prices, and policies of other nations. At times, the fluctuations have favored many farmers. At other times, they haven't. A few years of weak world demand trimmed the value of U.S. agriculture exports to about $35 billion in 1983. Earnings would have been more than $50 billion had exports continued to grow at the pace they had set through 1981.

Beyond the additional risks on the income side, and also beyond the scope of traditional farm programs, is another window of vulnerability on the expense side—heavy dependence on credit and on capital-intensive technology from the nonfarm sector.

Farmers borrow to put their crops in the ground, expand their herds, and buy land and machinery. Their dependence on borrowing means they are subject to high and variable interest rates as well as to stable or declining values for land and other assets that serve as collateral for loans.

"By the mid-1970's," Harrington says, "farmers recognized that they could benefit from inflation by aggressive investment and expansion of their farms. They earned substantial paper returns from the increasing value of farmland, providing the basis for loans to buy more farmland and newer machinery. In the last few years, farmland values have fallen at a time when the need for credit has become greater and the cost of credit has risen sharply."

He points out that around a third of the largest U.S. farms have debt-to-asset ratios in excess of 40 percent. That's a risky position. High debt and interest payment obligations can put even large farmers in jeopardy when income swings in the wrong direction and holds there for a few critical years.

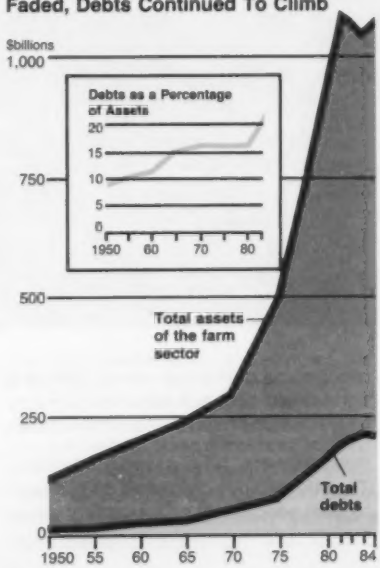
Dependence and vulnerability are also apparent in another category of expenses—the machinery, chemicals, and other capital-intensive technology that have become the hallmark of U.S. agriculture and the basis of its impressive productivity.

Technological Dependence

At one time, even the horsepower was produced on the farm—the four-legged variety that is fueled on oats instead of petroleum. The image of the self-reliant farm at the very first stage of the production process still lingers in the popular imagination, but it does not describe modern American agriculture.

Much of the work and many of the functions formerly performed on farms have shifted to nonfarm firms. Farmers purchase more than four-fifths of their production items from outside the sector. Dependence on purchased inputs means they are vulnerable to rising wages and prices—and supply interruptions—in the general economy.

When the Rapid Gains in Asset Values Faded, Debts Continued To Climb



"Feed, seed, and livestock still come from farms," says Harrington, "but much more is now produced on one farm and used on another, with ownership increasingly passing through nonfarm firms on the way."

Mechanization and dependence on other output-boosting inputs have kept farm commodity prices down and turned farming into a high-volume, low-margin business; a business where flexibility, financial or otherwise, is fairly limited. Farmers who successfully adopted the new technologies produced more and got bigger. Others either got out of farming or became part-time farmers.

Expenses for inputs, together with interest on debt, now eat up such a large portion of farm incomes (*see accompanying sidebar box*) that relatively small changes in production or prices can wipe out the farmer's margin. This makes the sector, in Harrington's opinion, far more prone to "boom or bust" cash flow situations.

"The sector has lost some of its resilience and flexibility because so many expenses are locked in," he says. "As a result of this decreased flexibility, the industry is in a poorer position to withstand economic or natural shocks, such as last year's drought. Its ability to cope with volatility is weakened at just the time that the probability and magnitude of external shocks have increased, primarily because of greater dependence on export markets."

Farm Survival and Growth

According to Harrington, farm survival and growth have become as much a matter of financial management as production or marketing management.

"The rapid growth in farm asset values in the 1970's, followed by the shocks of the early 1980's, established that financial strategies are the key to growth and survival of farms. The trouble is that financial strategies that spell success in one

Where the Money Goes

The facts are these: Today's commercial farms purchase most of the inputs needed in the production process, and they do this, to a large extent, on borrowed money. Hired workers, including professional farm managers, make up a greater proportion of the total farm work force than ever before. A significant number of farmers pay rent to other landowners for extra acreage to increase their production and income.

The "providers" of inputs, capital, labor, and land claim a huge share of the overall returns to farmers, a bigger share than they ever did in the past. Many of the input providers are farmers themselves, but many are not.

One measure of how returns to the "factors" of production have been altered is found in financial statistics supplied by economist Jim Johnson. Johnson monitors and analyzes economic indicators of the farm sector for USDA's Economic Research Service.

His statistics help track what happens to earnings from farm sales of crops and livestock, payments from government farm programs, and other cash receipts from farming operations.

For every dollar of gross cash income (before expenses) received by the nation's farmers, more than 70 cents in 1980 and nearly 80 cents in 1982 went to suppliers of purchased inputs, borrowed capital, hired labor, and rented land. After subtracting business taxes, the remainder—about 26 cents per dollar of income in 1980 and less than 20 cents in 1982—was cash available to farms for asset purchases, debt retirement, and operator income.

Back in 1950, only about 55 cents of every dollar in cash income to farming went to the factors of production. The farm sector was left with more than 40 cents out of each dollar received.

Larger Incomes, Smaller Margins

"This is not a direct measure of whether farms are in a better or worse financial position than they were in 1950," Johnson explains. He points out, for example, that total cash income to the farm sector is almost five times higher than it was in 1950. Net cash income from farming is more than twice as high, while the number of farms sharing that income is down from around 5.6 million in 1950 to 2.4 million in the early 1980's. On a per-farm basis, net cash income after expenses increased 537 percent from 1950 to 1982.

So what do the figures show? Johnson says they graphically illus-

The Cash Income Breakdown Reflects the Shift Toward a More Capital Intensive Agriculture

	1950	1960	1970	1980	1982
	millions of dollars				
Total cash income	**28,764**	**35,194**	**54,784**	**142,930**	**141,759**
Farm-origin inputs	5,805	7,577	13,280	32,292	31,107
Manufactured inputs	2,417	3,295	5,410	22,867	23,592
Other intermediate product expenses	2,762	5,068	6,483	16,765	19,057
Interest	559	1,268	3,020	15,637	20,982
Cash wages	2,451	2,449	3,584	8,469	9,948
Net rent to landlords	1,822	1,491	2,360	5,635	4,961
Business taxes	810	1,373	2,383	3,658	4,191
Total cash outlays	**16,626**	**22,521**	**36,519**	**105,324**	**113,838**
Net cash income from farming	**12,138**	**12,673**	**18,265**	**37,606**	**27,922**

All figures are rounded to the nearest million, so some columns do not add or subtract exactly.

economic environment can spell disaster in another."

No one can reasonably expect the farm sector to quickly and painlessly adjust to dramatic changes in the economic environment to which it is linked, Harrington says. That's where policy seems to come into the picture. However, recognition of the new vulnerabilities in agriculture does not automatically suggest solutions to farm sector difficulties.

Policymakers face several dilemmas. Traditional farm programs do not seem to deal adequately with volatility generated outside the sector. Moreover, income and price support policies can sometimes be self-defeating. High price supports can tie U.S. agriculture's hands in the competition for world markets. Income supports that shield agriculture from unpleasant economic developments can attract nonfarm investors into

trate many of the structural changes in agriculture, including larger farm size and the increasing contribution of inputs and other purchased factors to the farm production process.

"The factors of production are compensated according to their contribution to agricultural production, and that contribution is much greater today than it was in 1950 when farms were more self-contained units of production," he says.

Greater compensation for purchased production inputs, however, means a smaller margin for farmers and a greater risk that rising factor costs will cut more deeply into the farmer's returns.

Farmers' expenditures on all production inputs have risen substantially since 1950, but two categories of outlays stand out from the rest.

Spending on manufactured inputs, such as farm machinery, pesticides, and fertilizer, climbed from $2.4 billion in 1950 to $23.6 billion in 1982, an increase of nearly 900 percent. Outlays to pay interest on debt rose about 3,700 percent in the same period, from $559 million to nearly $21 billion.

In the same period, total cash income to the sector rose about 400 percent, from $28.8 billion to $141.8 billion.

Shift in Shares

Farm-origin inputs, such as feed, seed, and feeder cattle and pigs, still account for about a fifth of farm sector cash income as they did in 1950. Cash wages account for a slightly smaller share—6 to 7 percent, as opposed to 8.5 percent. Net rent to landlords took only 3.5 percent of total cash income in 1982, compared with 6.3 percent in 1950.

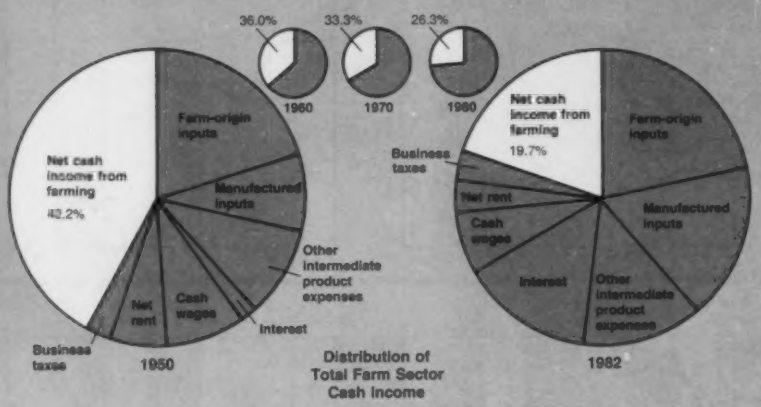
On the other hand, manufactured inputs now amount to more than 16 percent of total cash income, up from 8 percent in 1950. Interest expenses ballooned from less than 2 percent to nearly 15 percent of the total in 1982.

The increasing proportion of income going to buy manufactured inputs and pay interest on debt has cut the farm sector's margin from 42 cents on the dollar in 1950 to less than 20 cents in 1982.

Smaller margins tend to put a premium on volume, and they also leave producers more vulnerable if farm prices slump or production doesn't match expectations.

Between 1980 and 1982, the squeeze came partly from product prices but mostly from the expense side. In 1982, total cash income to the farm sector was only about $1.2 billion less than it was in 1980. Yet, net cash income to farmers dropped $9.7 billion over the same 2 years, from $37.6 billion to $27.9 billion. The major reason: Interest payments on debt rose more than $5 billion.

A Larger Share of Farm Sector Income Now Goes to the Factors of Production, Leaving a Smaller Margin for Farmers



Distribution of Total Farm Sector Cash Income

agriculture, increase the competition for land, and depress farm returns that come from the marketplace.

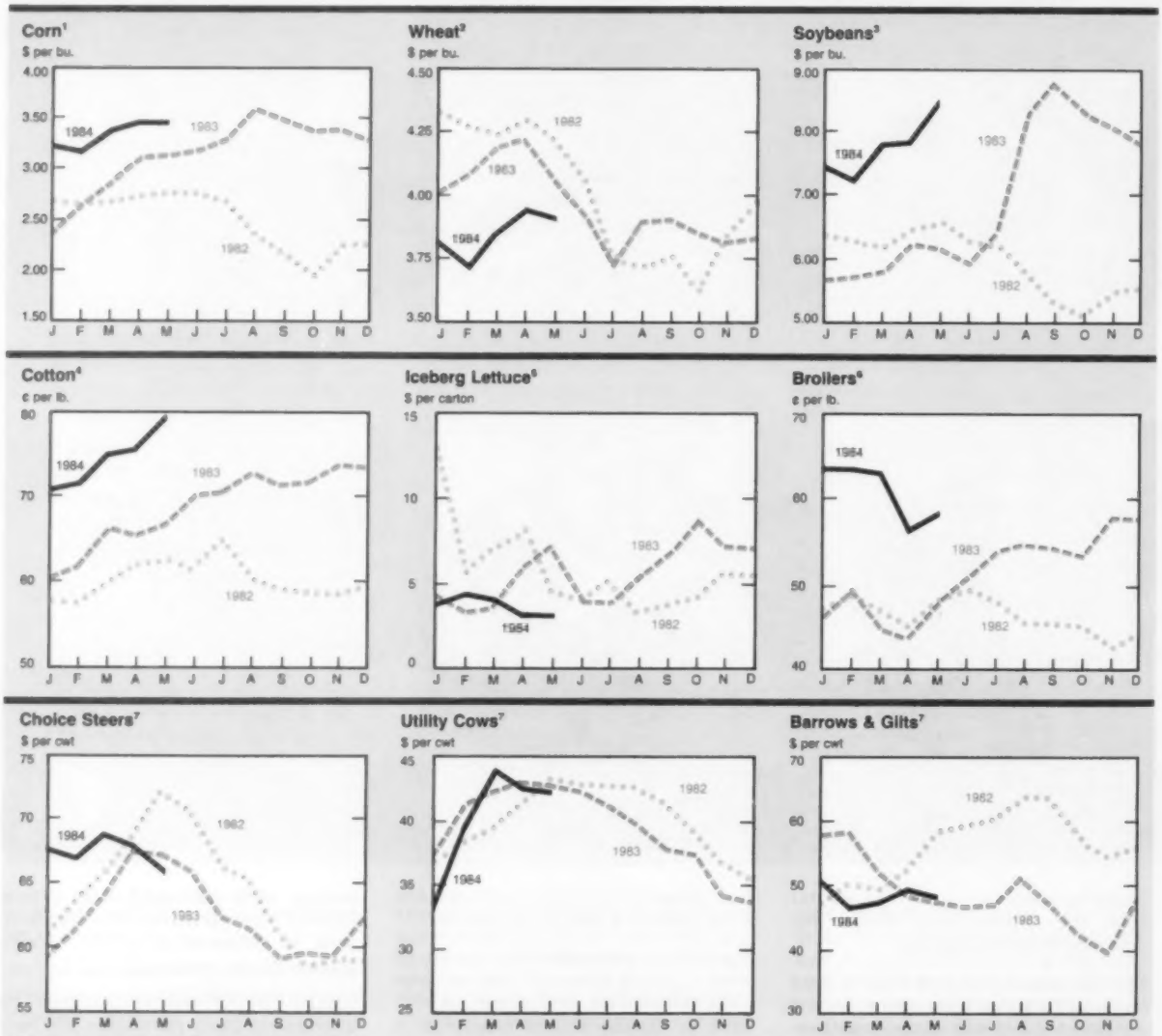
Prentice argues that farm policies need to be consistent with broader economic policies, but also that agricultural interests and impacts need to be considered in the making of general economic policy. The general economy, he notes, has a big stake in a healthy farm sector.

Agriculture generates $20 billion or more in annual trade surpluses and provides employment for millions of Americans in various related industries. A beleaguered farm economy can be a considerable drain on the federal budget, while each extra dollar in farm income, if generated by demand growth, adds an estimated $2 to the nation's gross national product. □

[*Based on information provided by economists David Harrington and Paul Prentice of the National Economics Division, Economic Research Service.*]

Monthly Price Monitor

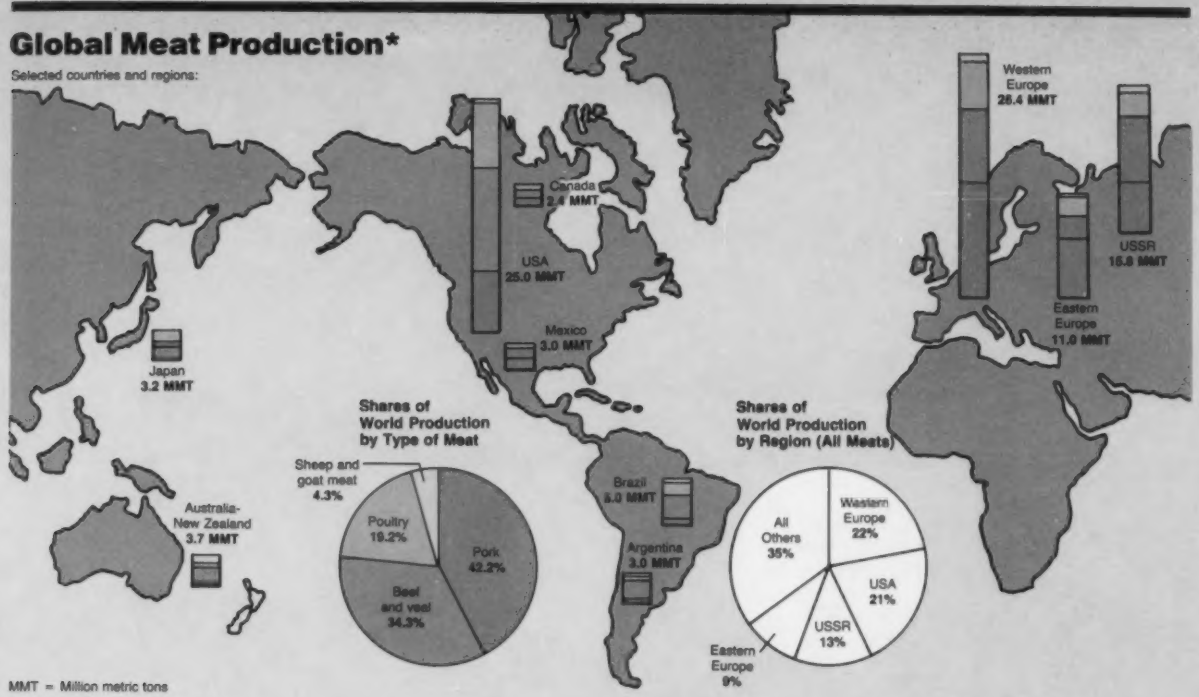
USDA's May index of farm prices dropped 1.4% but was 5% above the year-earlier level. In wholesale markets (below), corn and wheat held fairly steady. Soybean prices jumped 62¢ per bushel, topping the $8 mark for the first time since last November. Cotton climbed above 79¢ a pound, the highest since April 1981. Broiler prices rose a few cents, while choice steers dropped below the $66-per-cwt mark for the first time this year. Utility cows and barrows and gilts dipped marginally. Corn, soybean, cotton, and broiler prices remained well above year-earlier levels.



[1]No. 2 yellow, Central Illinois. [2]No. 1 HRW, Kansas City. [3]No. 1 yellow, Central Illinois. [4]SLM 1-1/16" spot market price. [5]Standard carton 24's, California-Arizona. [6]Wholesale, New York. Monthly average prices since May 1983 may not be strictly comparable with prices for previous months. [7]Omaha.

Global Meat Production*

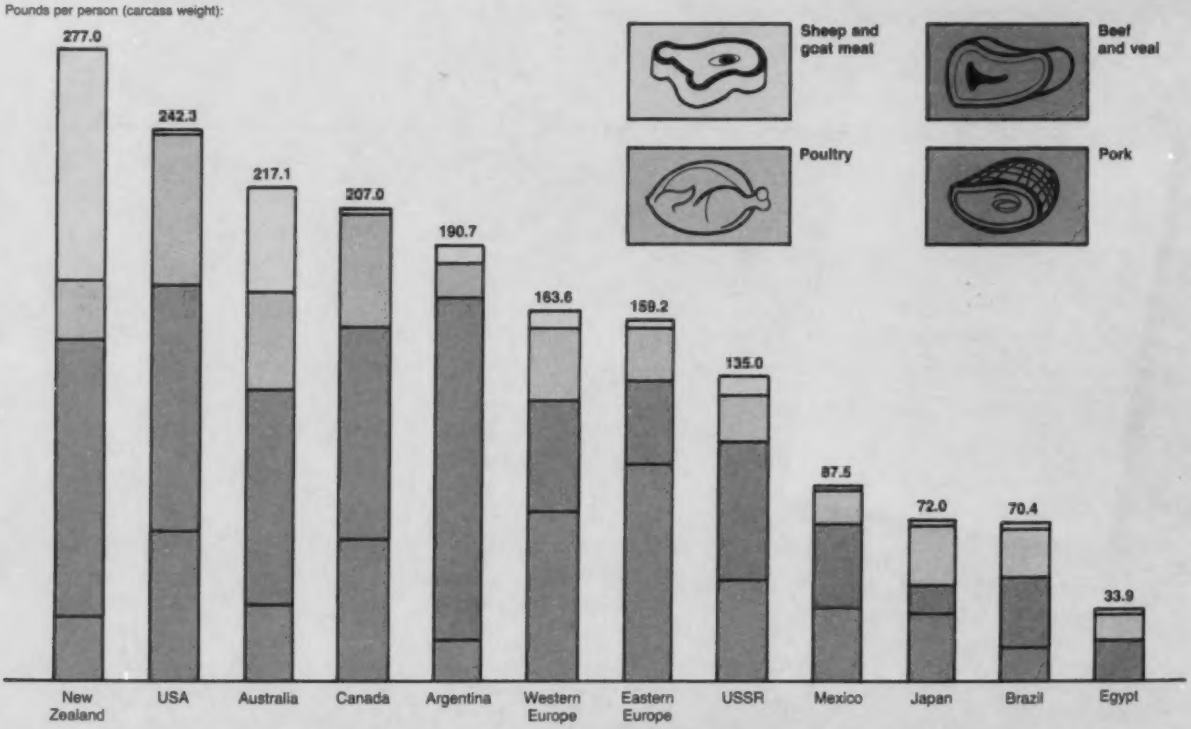
Selected countries and regions:



MMT = Million metric tons

Per Capita Meat Consumption*

Pounds per person (carcass weight):



*Based on 1983 data for major producing countries, including China, provided by economist Linda Bailey of the International Economics Division, Economic Research Service.

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